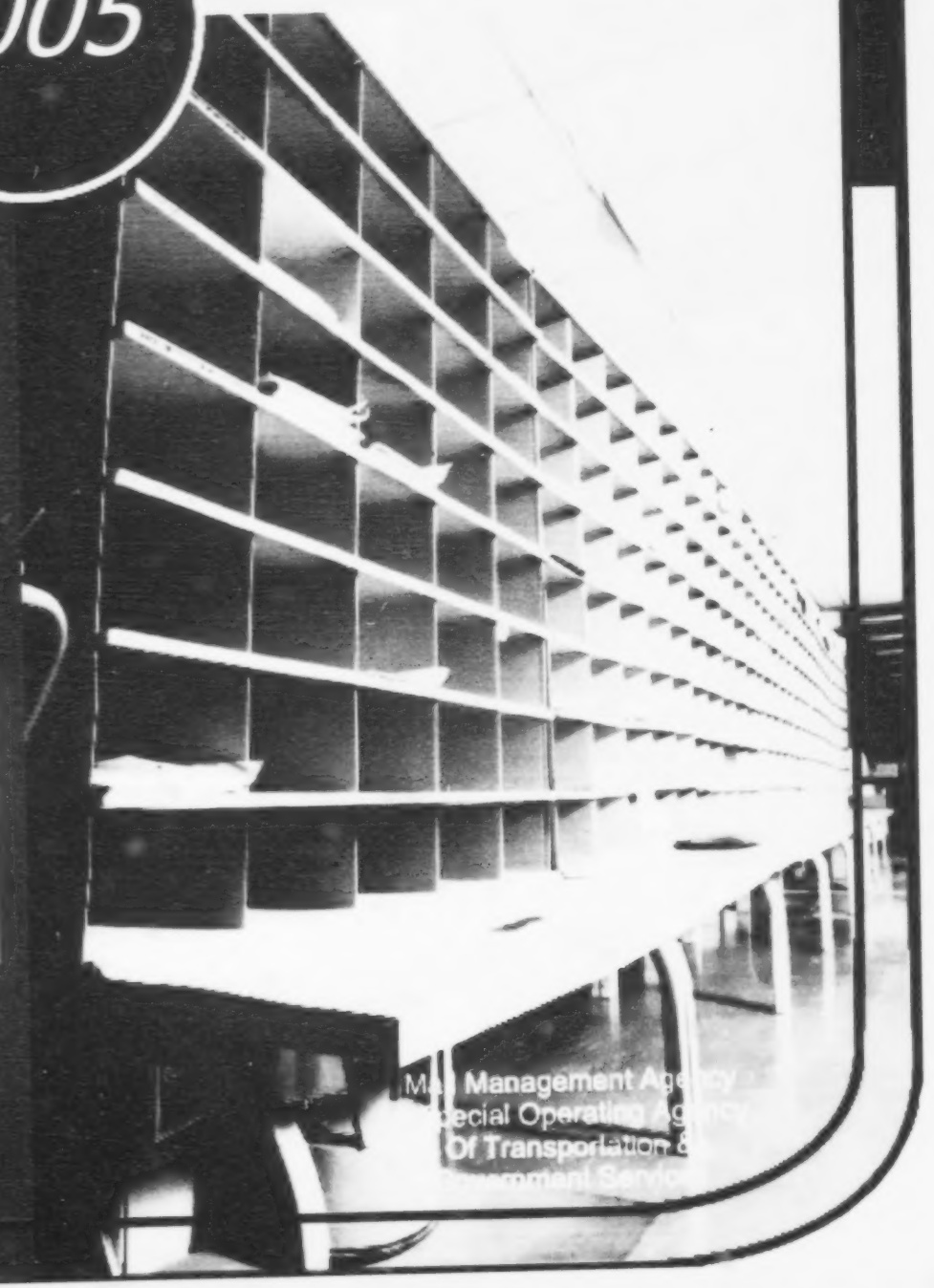
Annual Report

2005

MAIL MANAGEMENT AGENCY

Providing Communication Solutions for the Future.



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MINISTER'S LETTER

MINISTER OF TRANSPORTATION
AND GOVERNMENT SERVICES

Room 235
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

July 11, 2005

The Honourable John Harvard
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

May It Please Your Honour:

I have the privilege of presenting the ninth Annual Report of Mail Management Agency for the year ended March 31, 2005.

For the past 49 years, Mail Management Agency and its predecessor, Postal Services Branch, have provided correspondence production, assembly and distribution services to the province and to the broader public sector.

Mail Management continues to seek out innovative solutions within its mandate to ensure that services meet or exceed the forefront of its industry. As an Agency, MMA strives to provide its clients and stakeholders with excellence in performance and commitment.

In 2004/05, Mail Management Agency and Materials Distribution Agency submitted a joint proposal to amalgamate. The proposal was accepted and the amalgamation took place April 1, 2005. This amalgamation was an important step to ensuring a cost effective quality mail service continues into the future.

Respectfully submitted,

R Lemieux

Ron Lemieux
Minister Responsible for
Mail Management Agency

DEPUTY MINISTER'S LETTER

Manitoba

Deputy Minister of
Government Services

332 Legislative Building
Winnipeg MB R3C 0V8

Telephone: (204) 945-4414
Facsimile: (204) 945-1857

July 11, 2005

The Honourable Ron Lemieux
Minister Responsible for
Mail Management Agency
Manitoba Transportation and Government Services
Room 203, Legislative Building
Winnipeg MB R3C 0V8

Dear Mr. Minister:

I am pleased to submit for your review and consideration the ninth Annual Report of Mail Management Agency for the year ended March 31, 2005.

Mail Management endeavours to ensure that customer service, productivity improvement and employee development are at the forefront of its initiatives. Building on this foundation enables the Agency to continue to meet and exceed client expectations.

The Agency continues to face a future of significant change which the Agency has met by introducing innovative services and solutions that have enhanced the government's ability to communicate in an efficient, low cost manner. To further enhance the Agency's ability to operate more efficiently and to broaden its client base, a joint proposal to amalgamate Mail Management Agency with Materials Distribution Agency was accepted and the Agencies were amalgamated April 1, 2005.

I am pleased with the operating achievements of Mail Management Agency and encouraged by the commitment of its employees.

Respectfully submitted,

Debra Woodgate
Chairperson of the
Mail Management Agency Advisory Board

CHIEF OPERATING OFFICER'S LETTER

MAIL MANAGEMENT AGENCY

200 Vaughan Street
Winnipeg MB R3C 1T5
Phone:945-2820, Fax:945-5753

From the Chief Operating Officer

The 2004/05 fiscal year was one of the most successful years Mail Management Agency has had since its inception. Implementation of rate changes, effective expenditure management, and increased production brought on by new clients contributed to a positive bottom line.

Mail Management Agency recognizes that client requirements are constantly changing and therefore it must continue to develop and promote services that assist clients in meeting their requirements. In the past year, the Agency worked closely with several major clients to acquire new Digital Printing and Mail Finishing business. Opportunities like this help to create positive relationships between the Agency and its clients, fostering additional business that may not have existed in the past.

The Agency faced many challenges that were met with success. The greatest of these challenges was its contribution to the development of a joint proposal to amalgamate Mail Management Agency and Materials Distribution Agency. This amalgamation of two similar agencies, will set the stage for continued efficiencies and growth well into the future.

During this past year, the staff of Mail Management Agency worked exceptionally well under the pressures of deadlines and constantly changing priorities. It is due to their dedication and commitment that we can all share in the success of this Agency in its final year as Mail Management Agency.

I would like to extend my sincere appreciation to those that contributed to and supported Mail Management Agency, particularly our staff and clients.

Michael Langenfeld
A/Chief Operating Officer

106-00367/

ADVISORY BOARD

The Advisory Board's role in support of the Agency is to offer advice and direction on short-term strategic planning, management, and reporting as well as on issues of concern to our clients. The Board meets quarterly to review the Agency's financial reports, and annually to review the Business Plan, Annual Report, and any planned changes to the Agency Charter.

Members of Mail Management's Advisory Board as of March 31, 2005, are listed below

CHAIR

Debra Woodgate
Deputy Minister
Government Services

MEMBERS

PRIVATE SECTOR REPRESENTATIVE

Randy Manikel
RIO Management & Consulting Ltd.

CLIENT REPRESENTATIVE

Dave Wotton
Assistant Deputy Minister
Manitoba Conservation

CLIENT REPRESENTATIVE

John Hosang
Assistant Deputy Minister
Manitoba Transportation & Government Services

STAFF REPRESENTATIVE

Paige Mills
Postal Clerk - Interdepartment Mail
Mail Management Agency

EX-OFFICIO

Michael Langenfeld
A/Chief Operating Officer
Mail Management Agency

EX-OFFICIO

Tracey Danowski
A/Assistant Deputy Minister
Transportation & Government Services

AGENCY MANAGEMENT

MICHAEL LANGENFELD
A/Chief Operating Officer

GREG BOWERS
A/Marketing Systems

SHERRY HUFF
A/Operations Manager

LYNDONNA SCHILLING
Accounting

AGENCY PROFILE

Historical Perspective

Mail Management Agency became a Special Operating Agency on April 1, 1996. Its history lies in that of the Postal Services Branch, its predecessor. The Postal Services Branch was responsible for centralized postal management within the Manitoba Government. It included coordinating the pick-up and delivery of correspondence, distribution of interdepartmental mail, affixing the most economical postage for correspondence to the general public and allocating these costs to the originating program, evaluating postal requirements, managing the franking privileges of Members of the Legislative Assembly and negotiating and entering into contracts to reduce postage and equipment costs to Government.

Postal Service began as a Branch in 1956 and throughout the years grew from one facility to as many as twelve. During its growth it developed a mail delivery system, using government owned vehicles, that provided a high degree of reliability. As technology and alternate sources of delivery improved, use of government owned vehicles were phased out and the number of postal satellites was reduced.

In the late 1980's to early 1990's, Postal Services became more accountable and service oriented. A computerized mail management system was purchased to recover postage costs from users. Postal Services subsequently assumed responsibility for the Department of Highways' postal operation and the Queen's Printer mail preparation services that included inserting and folding.

During the 1996/97 year, Mail Management Agency began to position itself as the most cost effective and efficient alternative. The Agency realigned its main facility, organization structure, systems, and its method of operation to assist it in its thrust of meeting or exceeding the expectations of its existing and future clients.

The 1997/98 year introduced a marketing position to the organization. As a result, the Agency developed an improved profile amongst its customers. Client presentations were performed and response time to customer inquiries was greatly improved.

Mission

The mission of Mail Management Agency is to enable clients to expedite their products, information and correspondence through the most appropriate distribution alternative.

The following business principles and values support the mission of the Agency:

- *to create service solutions for Government that contribute to affordable program delivery;*
- *to develop, through provision of superior service at reasonable cost, lasting, mutually satisfactory business relationships;*
- *to develop mutually agreeable business relationships with suppliers by ensuring all are extended access to tender documents, by paying open accounts promptly, and generally demonstrating good business ethics;*
- *to remain a good corporate citizen by complying with all the laws and regulations and by promoting measures to eliminate or minimize risks to the environment;*
- *to provide a safe working environment for all employees in compliance with ongoing Workplace Health and Safety regulations;*
- *to encourage and acknowledge special levels of employee accomplishments through recognition and rewards;*
- *to continue to train and develop employee skills and talents through career planning and educational support;*
- *to provide employees with clear objectives and direction on how they may be attained;*
- *to stress team building while recognizing individual effort within team frameworks;*
- *to encourage innovative ideas and promote creative thought;*
- *to jointly establish individual performance goals and conduct impartial appraisals on their degree of attainment; and*
- *to remain an employer of choice.*

Goals and Objectives

The long-term goal of Mail Management Agency is to become the selected distributor of products, information and correspondence. In support of this goal, management and staff of the Agency have defined the following objectives that are critical to the long-term success of the Agency:

- *to ensure that the cost of postage for Mail Processing, Mail Finishing, and Interdepartment Mail are minimized and that mail is expeditiously processed;*
- *to consolidate all Manitoba Government existing and dispersed departmental mail operations into one corporate process which will eliminate duplication of services, staff, equipment and space usage;*
- *to develop clients outside the Provincial Government, e.g. Interdepartment Mail for the City of Winnipeg, Federal Government offices in Manitoba, and Universities in Winnipeg;*
- *to provide guidelines to government in the processing of all related mail products and services and to establish standards and procedures for the efficient handling of government mail; and*
- *to develop other correspondence handling service solutions which are beneficial and cost effective for the corporate entity.*

Products and Services

MMA services are expanding to encompass the broader demands associated with communications. The existing Finishing, Processing, Interdepartment Mail, and Contract Administration components were augmented with *electronic* Mail Management (*e*MM) printing, beginning the process of transforming MMA into a one-stop shop for communication services. Providing these additional services at one location will enable MMA to more fully address their clients' current and future needs.

PROCESSING – Line of Service:

METERED	Standard and oversized letter mail processed with ink stamp impressions (metered dollar impressions) through high speed mail machines.
PARCELS	Items that exceed the maximum dimensions or weight of oversize lettermail. Parcels also include all Purolator and Canada Post shipping and delivery services.
PERMIT	Mailings of greater volume, pre-printed with indicia (Canada Post Customer number), and prepared for Canada Post utilizing a numerically controlled Statement of Mailing (SOM). SOM's are used for mailings such as Addressed Admail, Unaddressed Admail, Publication Mail and Lettermail.
PREPAID PRODUCTS	Numerically controlled Canada Post products that offer the customer a means of obtaining delivery confirmation among other benefits.
OTHER	This encompasses our Variable Rate Services which include Business Reply Mail, Returned Mail and Short Paid Mail among others services where the rate does not remain constant.

FINISHING – Line of Service:

ADDRESSING	High speed machine addressing of envelopes and labels. Used in conjunction with Canada Post certified incentive mail software allows the Agency to correct and sort addresses directly to Canada Post letter carrier walks. In doing so, MMA garners significant postage savings for its customers.
BURSTING	High-speed machine separation of various types of continuous sheet forms.
FOLDING	High-speed machine folding of various types of cheques, paper documents, and government forms.
INSERTING	High speed inserting of paper documents, various types of cheques, and government forms.
MANUAL INSERTING	Grouping items of unusual type and design into containers specific to each unique project. Activities of this nature range from inserting specific matching items into envelopes or assembling convention kits that include CDs, pens, pins, etc. Each of these tasks are performed manually.

Products and Services

INTERDEPARTMENT MAIL – Line of Service:

PREPAID LABEL Purchased by clients and applied to Interdepartment Mail destined throughout the province. Labels come in four denominations (letter, oversize letter, small packet, and parcel).

MAIL DELIVERY Daily pickup and delivery service for Winnipeg Interdepartment Mail clients.

SIGNATURE SERVICE Numerically controlled delivery slips that offer the client a means of obtaining delivery confirmation for Interdepartment Mail.

CONTRACT ADMINISTRATION – Line of Service:

Acquisition and management of volume based courier rates for use within Mail Management Agency and by Agency clients that ship directly from their own facilities.

eMM PRINTING – Line of Service:

MMA's print services enable its clients to bundle their communications needs and have them provided more efficiently from a single central source. The print service provide clients with "just-in-time" printing of electronic documents on high speed digital black and white printers that can be immediately transferred to the Finishing, Processing, and Interdepartment mail sections.

VARIABLE DATA Merging of clients address list to a letter or form, and printing the document at high speed. When appropriate, adding barcodes to allow intelligent inserting to assist in achieving incentive postal rate savings.

QUICK COPY Printing multiple copies of a generic document on high speed printers.

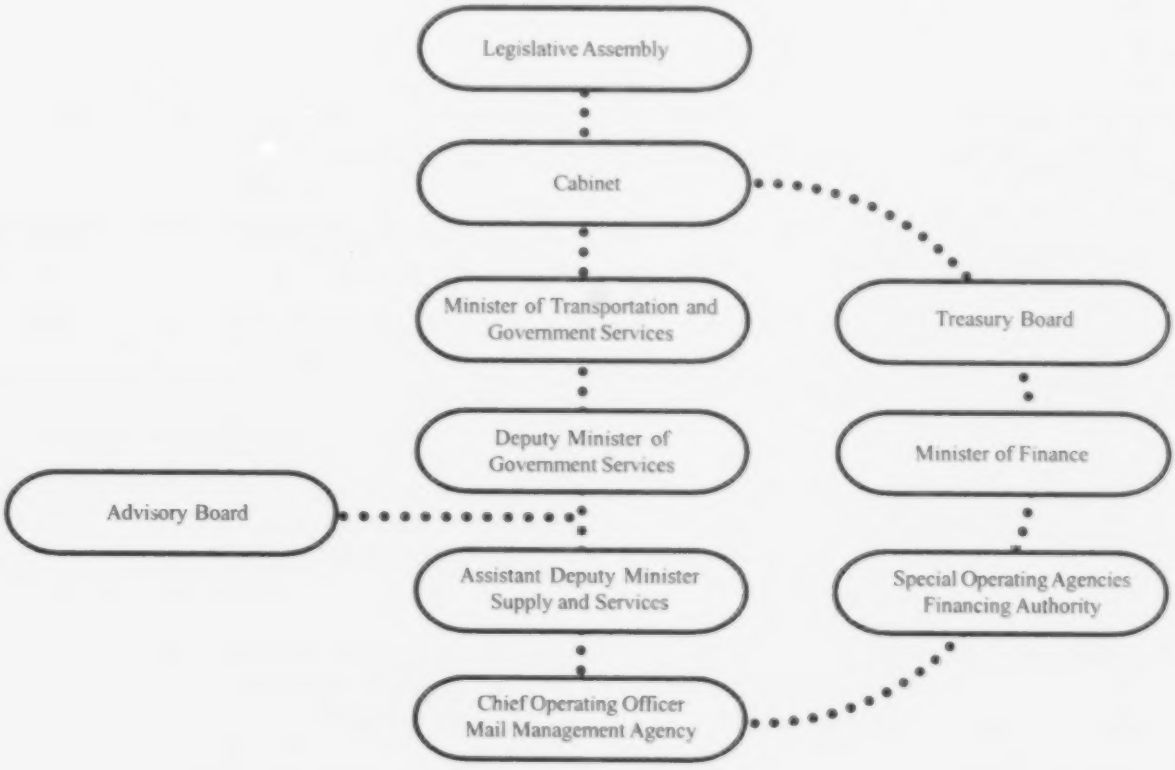
AGENCY PROFILE

Structure

Mail Management Agency is a Special Operating Agency within Manitoba Transportation and Government Services that is accountable to the Deputy Minister for operational and financial performance.

The Agency operates outside the Consolidated Fund under the Special Operating Agencies Financing Authority, which holds the Agency's assets, provides financing for operations, and is responsible for its liabilities.

The accompanying chart identifies Mail Management's accountability within the established structure.



PERFORMANCE REVIEW

The Agency's 2004/2005 Business Plan identified particular success factors that served as goals to becoming a successful operating entity. The following is a synopsis of the Agency's resulting developments for the year ending March 31, 2005.

Product Pricing Methodology

The Agency continued a process begun in the prior fiscal year of establishing a pricing model that better reflected the cost associated with each service. Approved rate increases were applied to those products and services that were not making an appropriate contribution. These rate increases helped the Agency to achieve its best financial position in many years.

Organizational Development

The importance of developing employees is fundamental to the success of the Agency. Six thousand dollars was budgeted for employee development. Four employees attended a Differing Work Styles course, one attended Communication and Conflict Skills and Writing Effective Minutes. The A/Operations Manager attended Leadership Basics and the Accounting Manager completed the CGA program. Several staff were also cross trained in order to meet the fluctuating demands of this business.

Capital Plan

Mail Management continues to investigate the use of state of the art equipment for its Mail Finishing Section. The Agency received approval to spend $80,000 for inserting equipment to better handle cut sheet paper but a decision was made to put a hold on all capital purchases to concentrate on the amalgamation of MMA and Materials Distribution Agency (MDA). Once the amalgamation takes place, capital requirements will be reviewed.

In order to comply with a Canada Post directive, all mail metering equipment, including a mail management data collection system, will need to be replaced by December 31, 2006. The estimated cost will be between $220,000 and $266,000. Equipment requirements and processes will be reviewed in an attempt to reduce the number of mailing machines required.

Customer Relationship Management

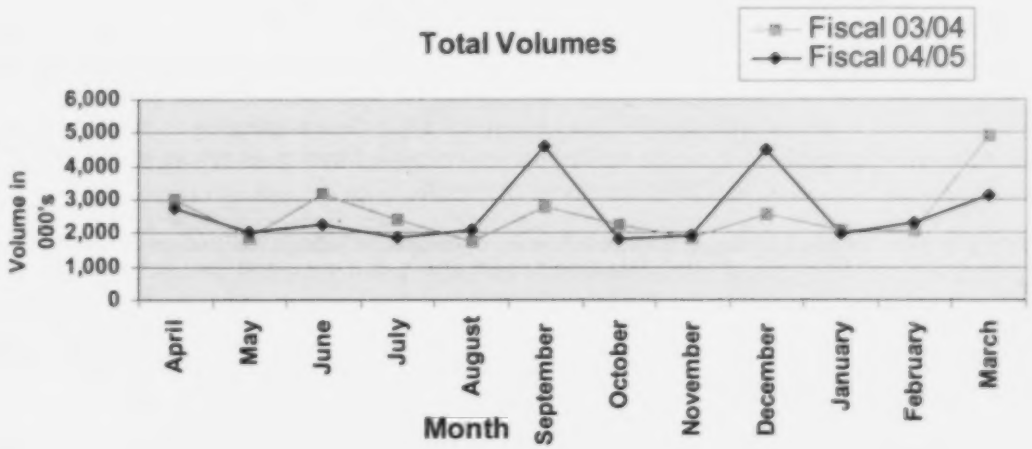
Building positive relationships with clientele enabled the Agency to secure regularly scheduled high volume print jobs with the Winnipeg Regional Health Authority and Manitoba Justice. The Agency was also successful in acquiring the City of Winnipeg as a client. To ensure that all clients remain satisfied and up to date on mail related issues, a generic email account to handle customer enquiries was established and a newsletter (MailFacts) is distributed to subscribers on a regular basis.

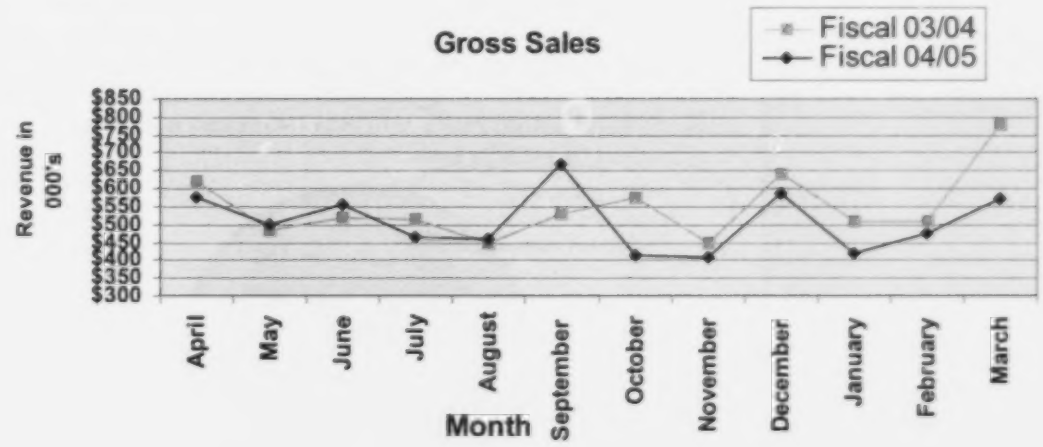
PERFORMANCE REVIEW

The following charts provide a synopsis of volume and revenue comparisons.

Volumes (000's)

	Actual 2003/04	Actual 2004/05	Projected 2004/05	Variance to Actual 2003/04	Variance to Actual 2003/04 %	Variance to Projected	Variance to Projected %
Processing	3,219.9	2,981.7	3,567.2	(238.2)	(7.4%)	(585.5)	(16.4%)
Finishing	21,029.5	21,282.6	22,578.8	253.1	1.2%	(1,296.2)	(5.7%)
Interdepartment	980.0	913.4	969.0	(66.6)	(6.8%)	(55.6)	(5.7%)
Printing	1,563.3	1,759.6	1,970.0	196.3	12.6%	(210.4)	(10.7%)
Total	**26,792.7**	**26,937.3**	**29,085.0**	**144.6**	**0.5%**	**(2,147.7)**	**(7.4%)**

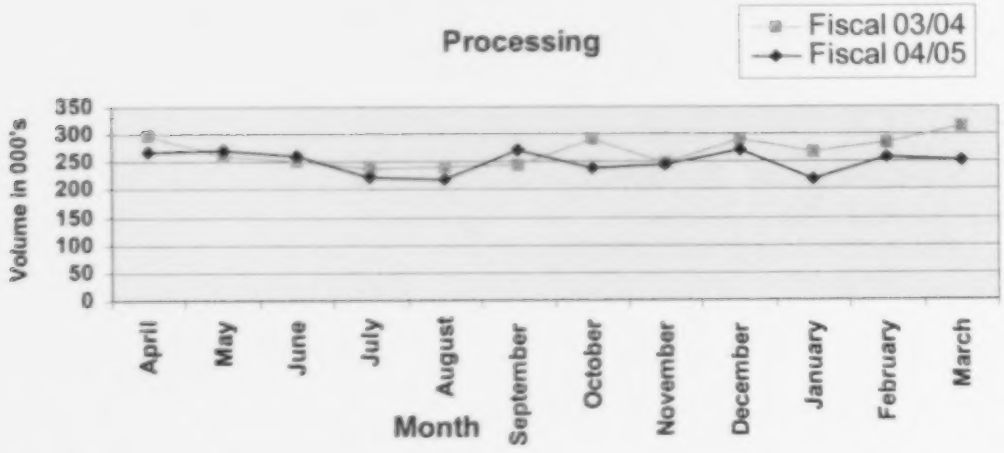


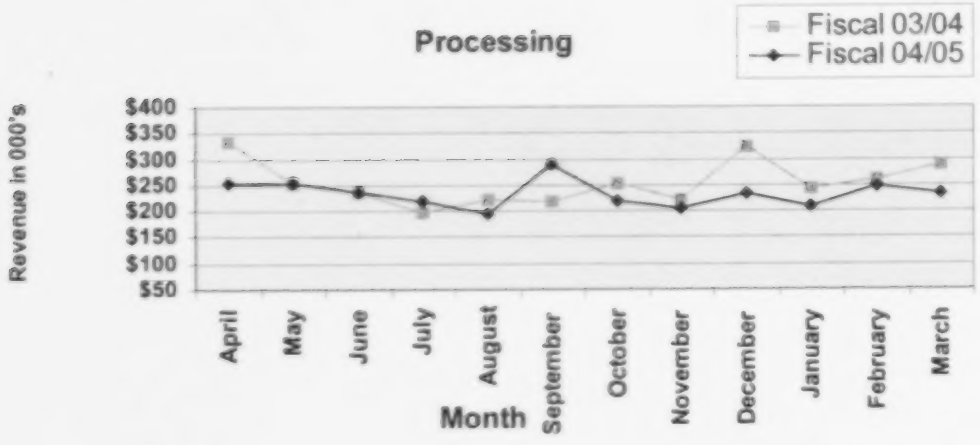


PERFORMANCE REVIEW

Mail Processing

The following line charts illustrate monthly Processing volume and revenue figures for 2004/05.

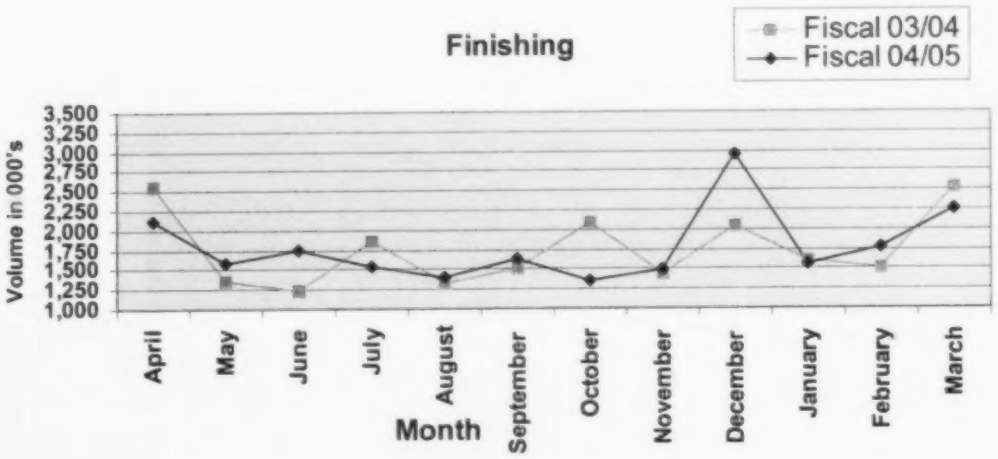


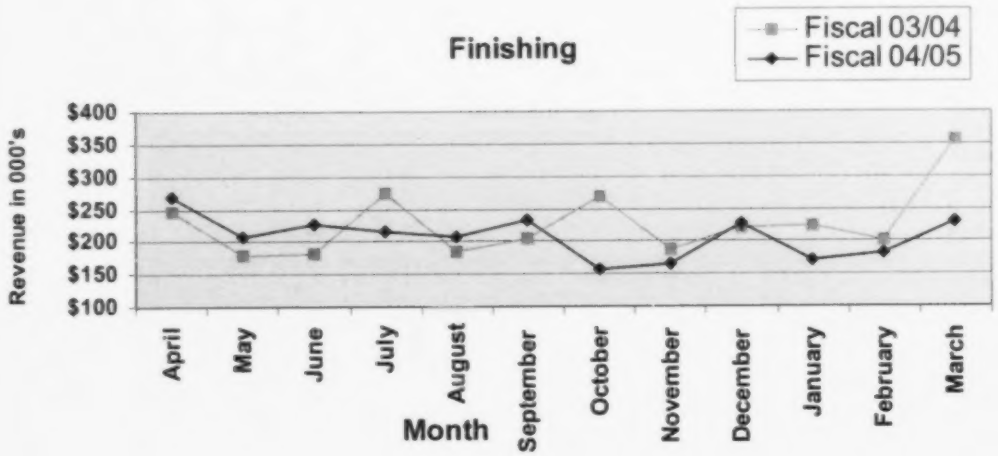


PERFORMANCE REVIEW

Mail Finishing

The following line charts illustrate monthly Finishing volume and revenue figures for 2004/05.

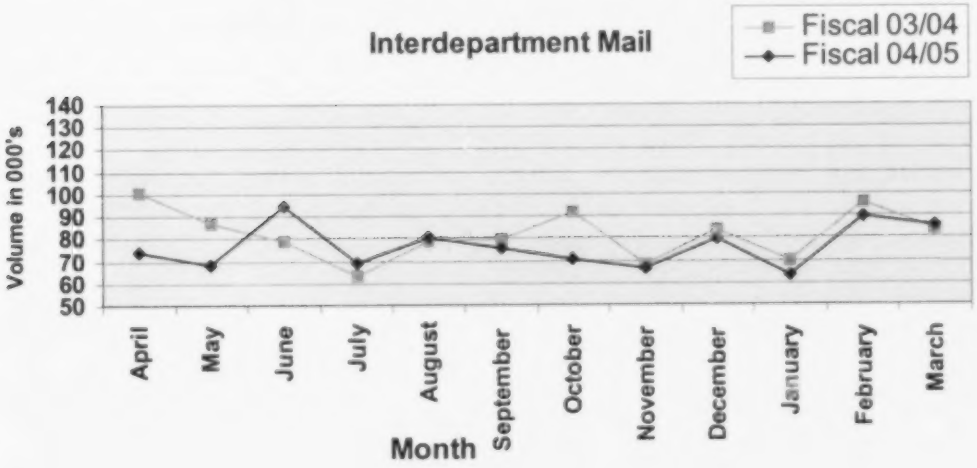


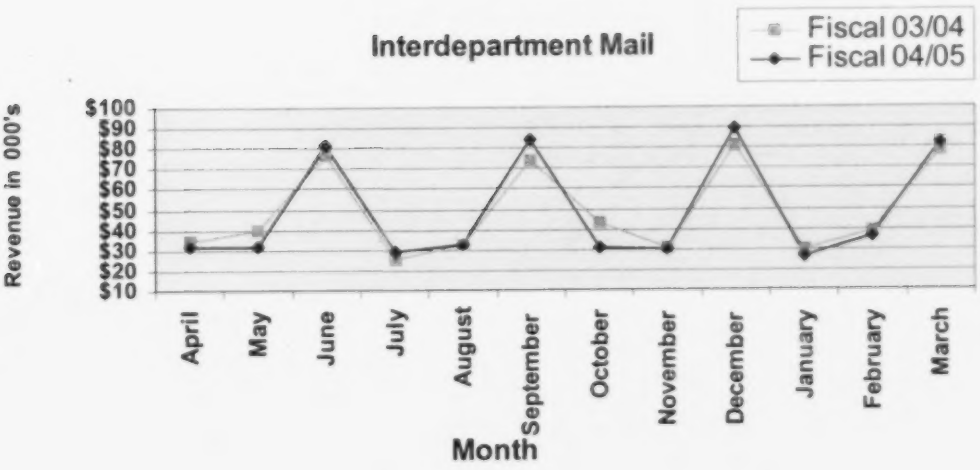


PERFORMANCE REVIEW

Interdepartment Mail

The following line charts illustrate monthly Interdepartment Mail volume and revenue figures for 2004/05.

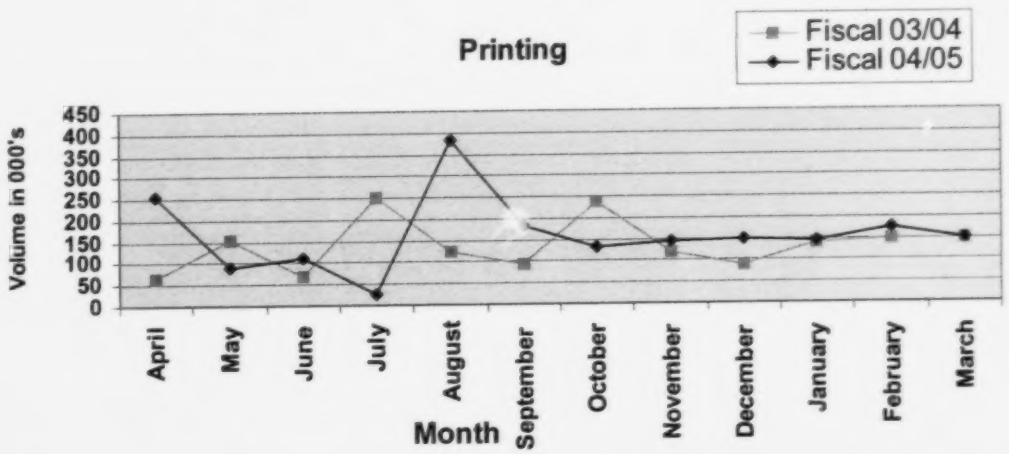


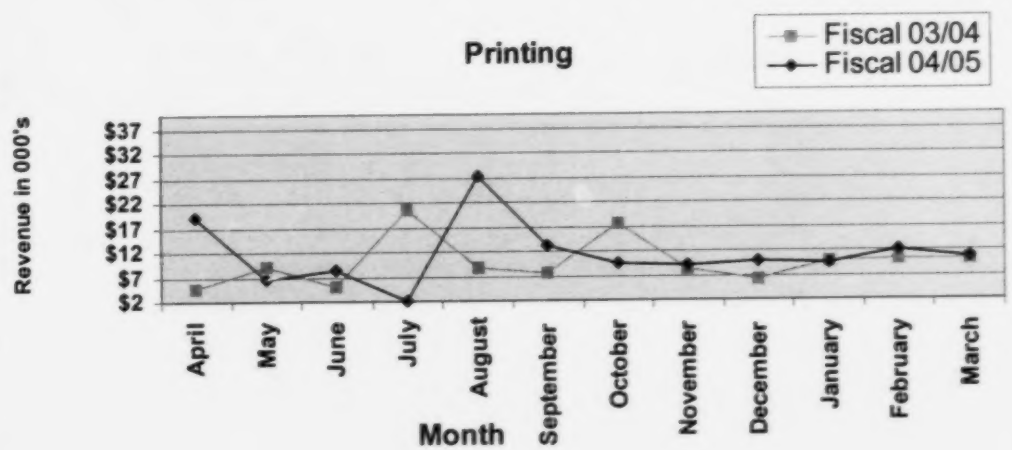


PERFORMANCE REVIEW

Printing

The following line charts illustrate monthly Printing volume and revenue figures for 2004/05.





MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Agency closed the year with net revenue of $107,000 on $6,004,000 in gross revenue. This is a substantial improvement over 2003/04, which can be attributed to rate adjustments and increased productivity.

Significant Events in 2004/2005

New rates were in place for the full fiscal year and contributed to an improved bottom line. Adjusting staffing levels to meet work flow helped to reduce the impact of the general salary increases. As well, the Agency's Chief Operating Officer left the Agency in the beginning of the third quarter of 2002 with the position being filled on a rotational basis by the Marketing/Systems manager and the Operations manager.

Improvements to the management information system have allowed the Agency to perform trend analysis on each line of business. The ongoing trend analysis has allowed Operations to utilize employees more effectively and to schedule vacations around peak workloads.

Marketing efforts focused on promoting the Digital Printing and Mail Finishing lines of business. Efforts at promoting the digital print line of business contributed to a 12.5% increase in volumes while Mail Finishing volumes increased by 6.9%.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue From Operations

Mail Processing

Mail processing revenue decreased by 9.5% to $4,842,000 when compared to the prior year. The difference in revenue is due to volume loss brought on by departmental expenditure reductions.

Mail Finishing

Finishing revenue increased by 6.6% to $3,840,000. The increase can be attributed to acquiring additional business from the City of Winnipeg and the department of Justice.

Interdepartment Mail

Although volumes are down, revenues remained stable due to rate increases for this line of business.

Printing

Printing volumes improved by 12.5% over the prior year which increased revenue for this line of business by $12,000. Two major clients came on board this year providing the Agency with regularly scheduled print jobs.

Contract Management

The revenues from this service are up 16% from the prior year. Over 900 clients access this service and each year the number of clients has increased since this line of business was established.

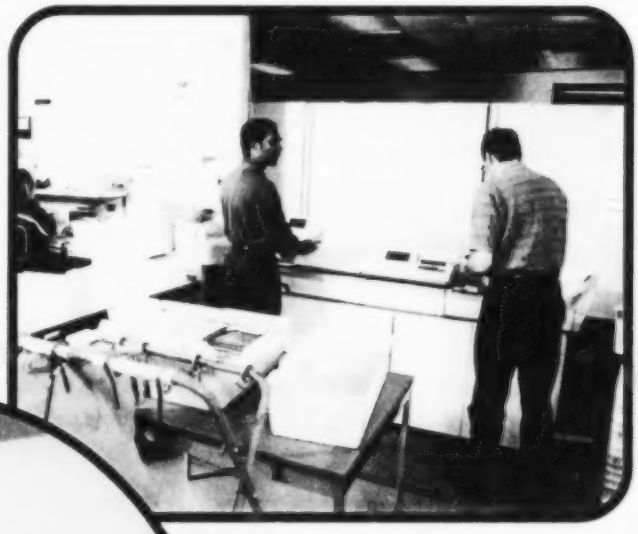
MANAGEMENT DISCUSSION AND ANALYSIS

Operating Expenses

The largest component of the Agency's operating cost is postage at $4,332,000. Postage expenditures decreased by $515,000 or 10.6% over the prior year. The decrease in postage was due to the reduction in Manitoba Public Insurance volumes and the overall reduction in government mail volumes.

Labour represented the second largest expense for the Agency. A 3.4% increase occurred in 2004/2005 bringing salaries and benefits to $977,000. The increase in salary expense is related directly to general salary increases.

Interest expense decreased by 70 % to $5,000, which can be directly attributed to better management of receivables and a change by Canada Post, which began billing for postage.



RESPONSIBILITY OF FINANCIAL REPORTING

Mail Management Agency
An Agency of the
Special Operating Agencies Financing Authority
Province of Manitoba
Responsibility of Financial Reporting

The Agency's management is responsible for the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position and the results of operations in accordance with generally accepted accounting principles. The Exchange Group - Chartered Accountants, independent external auditors, have audited the financial statements.

The Agency maintains a system of internal controls throughout its operation that provides reasonable assurance that the transactions are authorized, properly recorded and reported and that the assets are safeguarded.

An Advisory Board is available to meet, as required, with management to review accounting practices, financial reporting and to discuss audit results. During the year, management met with the Advisory Board and the auditors have free and full access to this Board, to discuss the results of their audit and their views on the adequacy of internal controls and the quality of financial reporting.

Michael Langenfeld
A/Chief Operating Officer

June 28, 2005

MAIL MANAGEMENT AGENCY

Financial Statements

(In Thousands)

Year Ended March 31, 2005

E X G

THE EXCHANGE

chartered accountants LLP

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Mail Management Agency, an agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2005 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP

Winnipeg, Manitoba
May 30, 2005

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MAIL MANAGEMENT AGENCY

Balance Sheet

(In Thousands)

March 31, 2005

	2005	2004
ASSETS		
CURRENT		
Accounts receivable	$ 608	$ 835
Prepaid expenses	161	162
	769	997
DUE FROM PROVINCE *(Note 3)*	124	124
EQUIPMENT *(Notes 2, 4)*	157	232
	$ 1,050	$ 1,353
LIABILITIES		
CURRENT		
Working capital payable *(Note 5)*	$ 231	$ 483
Accounts payable and accrued liabilities	167	296
Current portion of capital lease obligation *(Note 7)*	42	38
	440	817
SEVERANCE LIABILITY *(Note 6)*	84	75
CAPITAL LEASE OBLIGATION *(Note 7)*	30	72
	554	964
EQUITY		
Contributed surplus *(Note 8)*	51	51
Retained earnings	445	338
	496	389
	$ 1,050	$ 1,353

COMMITMENTS *(Note 9)*

MAIL MANAGEMENT AGENCY

Statement of Income and Retained Earnings

(In Thousands)

Year Ended March 31, 2005

	2005	2004
REVENUE		
Mail processing	$ 4,842	$ 5,350
Mail finishing	384	360
Printing	124	112
Contract administration	70	60
Inter department mail	584	585
Other	-	1
	6,004	6,468
EXPENSES		
Amortization	81	79
Communications	9	8
Courier	158	155
Employee benefits	141	137
Equipment rental and maintenance	63	67
Interest and bank charges	5	17
Leases	18	23
Miscellaneous operating	39	35
Network	23	24
Occupancy	120	116
Office	42	45
Postage	4,332	4,847
Professional fees	9	3
Salaries	836	808
Sub-contracts	21	21
	5,897	6,385
NET INCOME	107	83
RETAINED EARNINGS - BEGINNING OF YEAR	338	255
RETAINED EARNINGS - END OF YEAR	$ 445	$ 338

MAIL MANAGEMENT AGENCY

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2005

	2005	2004
OPERATING ACTIVITIES		
Cash receipts from customers	$ 6,231	$ 6,396
Cash paid to suppliers and employees	(5,940)	(6,171)
Interest paid	3	5
Cash flow from operating activities	294	230
INVESTING ACTIVITY		
Additions to equipment	(4)	(39)
Cash flow used by investing activity	(4)	(39)
FINANCING ACTIVITY		
Capital lease obligation	(38)	(43)
Cash flow used by financing activity	(38)	(43)
INCREASE IN CASH	252	148
DEFICIENCY - BEGINNING OF YEAR	(483)	(631)
DEFICIENCY - END OF YEAR	$ (231)	$ (483)

MAIL MANAGEMENT AGENCY

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2005

1. DESCRIPTION OF OPERATIONS

In 1956, Mail Management (Postal Services) was created as a branch of the Manitoba Provincial Government to provide centralized postal management.

Effective April 1, 1996, the Postal Service was renamed Mail Management Agency (the "Agency") and designated as a Special Operating Agency (SOA) pursuant to The Special Operating Agencies Financing Authority Act, Cap. s185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from the Agency operations. It finances the Agency through repayable loans and working capital advances. The financial framework enables the Agency to operate in a business-like manner according to the public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Transportation and Government Services assigns responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of the Financing Authority.

The Agency continues to be part of Manitoba Transportation and Government Services under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and Minister.

The Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

The Agency is economically dependent on the Province of Manitoba. Currently, the Agency derives most of its revenue and all of its capital financing requirements from the Province. The transactions with the Province of Manitoba are recorded at the exchange amount, which is the amount agreed upon by both parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within the reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equipment

Equipment is recorded at cost and are amortized annually at the following rates and bases:

Production equipment	20%	declining balance method
Computer equipment	20%	straight-line method
Capital lease		lease term straight-line method

Some of the production equipment has been amortized at an accelerated rate because the Agency plans to replace some of the equipment earlier than originally planned.

Revenue Recognition

Revenue is recognized upon shipment of goods or providing the service and when collection is reasonably assured.

3. DUE FROM PROVINCE

The receivable from the Province of Manitoba is for vacation entitlements earned by the employees of the Agency prior to its designation as an SOA. It also includes severance pay benefits earned by the employees to March 31, 1998.

The receivable, or portion thereof, for the Agency will be collected in the event that there is a cash shortfall. However, this is only likely to happen on the dissolution of the Agency.

4. EQUIPMENT

	Cost	Accumulated amortization	**2005 Net book value**	2004 Net book value
Production equipment	$ 337	$ 301	$ **36**	$ 111
Computer equipment	7	5	**2**	2
Capital lease	189	70	**119**	119
	$ 533	$ 376	$ **157**	$ 232

5. WORKING CAPITAL PAYABLE

The Agency has an authorized line of working capital advances of $1,500 of which $1,269 is available as at March 31, 2005 (2004 - $1,017).

6. SEVERANCE LIABILITY

Effective April 1, 1998, the Agency commenced recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of fifteen years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Agency. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. That responsibility is reflected by a $124 receivable from the Province.

An actuarial report was completed February 2001 calculating the severance pay liability balance as at March 31, 2000. This actuarial report provided a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated to be $84 as at March 31, 2005 (2004 - $75).

7. CAPITAL LEASE OBLIGATION

	2005	2004
Pitney Bowes capital lease bearing interest at 2.37 % per annum, repayable in quarterly instalments of $2 blended principal and interest. The capital lease ends on January 31, 2006 and is secured by a high speed mailing machine.	$ 8	$ 14
Xerox Canada capital lease repayable by a fixed annual contract fee of $24. The capital lease ends on January 30, 2008.	47	71
DeLage Landen capital lease repayable in quarterly payments of $2. The capital lease ends on December 31, 2006.	17	25
	72	110
Amounts payable within one year	(42)	(38)
	$ 30	$ 72

Principal repayment terms are approximately:

2006	$ 42
2007	30
	$ 72

8. CONTRIBUTED SURPLUS

SOAFA and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of equipment valued at $102 required for continuing operations of the Agency as at March 31, 1996. The Agency is responsible to repay SOAFA the debt portion in the amount of $51 (being one-half of the value of the assets) and to record the balance of $51 as Manitoba's equity in the Financing Authority as related to the Agency's operations. The debt portion has been repaid.

9. COMMITMENTS

The Agency has not entered into lease agreements with the Province of Manitoba for the five locations that it operates (200 Vaughan Street, Winnipeg; 405 Broadway, Winnipeg; 450 Broadway, Winnipeg; 340 - 9th Street, Brandon; and 25 Tupper Street, Portage la Prairie). Occupancy charges for the year ended March 31, 2005 were $120, whereas charges for the year ended March 31, 2004 were $116.

10. PENSION BENEFITS

Employees of the Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act, administered by the Civil Service Superannuation Board (CSSB).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province the pension liability for its employees.

Commencing April 1, 2001, the Agency was required to pay the Province an amount equal to its employees' current pension contributions. The amount paid for 2005 was $35 (2004 - $34).

11. THE PUBLIC SECTOR COMPENSATION DISCLOSURE ACT

It is a requirement of The Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation exceeding $50 annually to any officer or employee of the Province of Manitoba. The following employees received compensation in excess of $50:

Name	Position	2005	2004
Greg Bowers	Acting Chief Operating Officer and Marketing Manager	$ 59	$ 58
Wesley Dropko	Programmer Analyst	52	-
Michael Langenfeld	Acting Chief Operating Officer and Operations Manager	51	-
		$ 162	$ 58

12. FINANCIAL INSTRUMENTS

The Agency's financial instruments consist of accounts receivable, due from Province, working capital payable, accounts payable and accrued liabilities, severance liability and capital lease obligation. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

13. SUBSEQUENT EVENT

The Province of Manitoba approved the amalgamation of the operations of Mail Management Agency and Materials Distribution Agency effective April 1, 2005. The amalgamated operations will operate as Materials Distribution Agency.

14. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to this year's presentation.